

PROCURRI CORPORATION LIMITED

(Company Registration No. 201306969W)

(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE COMPANY'S ANNUAL REPORT 2019

The Board of Directors (the “**Board**”) of Procurri Corporation Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) refers to the queries raised by Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 6 May 2020 in respect of the Company's annual report for the financial year ended 31 December 2019 (“**AR2019**”). Terms used in this announcement shall bear the meanings ascribed to them in AR2019 unless the context otherwise requires. The responses of the Company are set out as follows:

Query 1:

- (i) Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “**Code**”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. In this regard:

- (a) Provision 2.2 of the Code states that:

“Independent directors make up a majority of the Board where the Chairman is not independent.”

With reference to page 41 of the annual report for FY2019, we note that the Company has not complied with Provision 2.2 of the Code as independent directors do not make up a majority of the Board where your Chairman is not independent.

As such, please explain how the practices adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

Company's response:

The Board currently comprises six (6) directors, of which two (2) are executive directors, one (1) is a non-executive director and three (3) are independent non-executive directors. The independent non-executive directors therefore make up half of the Board.

Principle 2 of the Code requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company.

Independence - As disclosed on page 44 of AR2019, the Nominating Committee (the “**NC**”) assesses the independence of the independent non-executive directors guided by the Code and looks at factors such as the director's relationship with the Company, its related corporations, its substantial shareholders and whether these relationships interfere with such director's business judgement. Each independent non-executive director is also required to complete confirmation forms annually to confirm his independence as disclosed on page 41 of AR2019.

The independence of the independent non-executive directors is also evident from the fact that they meet amongst themselves without the presence of the management of the Company (the “**Management**”) and the executive directors to discuss and evaluate, among others, the performance of the Management. Where applicable, the feedback and views expressed by the independent non-executive directors is communicated by the lead independent director to the Chairman and CEO (as

defined below) and/or other members of the Management after such meetings. This is disclosed on page 42 of AR2019.

In addition to the above, the executive directors make up a minority on the Board while the non-executive directors form the majority. The majority of the Board is independent from the Management, and the NC is of the view that the relevant Board members have not conducted themselves in a manner that would cause the NC to believe that they are not independent from the Management in the making of their decisions.

Diversity of thought and background in composition - As disclosed on pages 42 to 44 of AR2019, the Company recognises and embraces Board diversity as an essential element in the achievement of business objectives and sustainable development.

The Board had considered the background and core competencies of each member of the current Board. This includes backgrounds in finance, accounting, legal, business and industry knowledge. The Board had also looked into the background of the current independent directors, and considered them competent as they are respected individuals from different backgrounds whose core competencies, qualifications, skills and experiences are extensive and complementary to the Company. In reviewing the composition of the Board, the NC had considered the benefits of diversity from a number of aspects, including but not limited to gender, age, educational background, professional experience, skills and knowledge. Additional information on the directors including, inter alia, their working experience for the past 10 years has also been disclosed in AR2019.

Apart from the abovementioned, as disclosed on page 42 of AR2019, the Board is of the view that diversity is not merely limited to gender or any other personal attributes, but rather the benefits of Board diversity are harnessed when the directors adopt an independent mindset when carrying out their responsibilities. In order to leverage on diverse perspectives, the Board strives to cultivate an inclusive environment where all directors are able to speak and participate in decision-making. Each director has been appointed on the strength of his calibre, experience and stature and is expected to bring a valuable range of experiences and expertise to contribute to the development of the Group's strategies and the performance of its business.

Conclusion:

Having considered the factors and considerations listed above, the Board is of the view that the Board demonstrates an appropriate level of independence and diversity of thought and background in its composition so as to be consistent with the intent of Principle 2 of the Code.

Query 2:

(b) Provision 3.1 of the Code states that:

"The Chairman and Chief Executive Officer ("CEO") are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision-making."

With reference to pages 42 and 43 of the annual report for FY2019, we note that the Company has not complied with Provision 3.1 of the Code as the Company's Chairman and CEO position is filled by the same person.

Where the Company's practices deviate from the provisions of the Code, please explicitly state the provision from which it has deviated from and explain how the practices it had adopted are consistent with the intent of Principle 3 of the Code, which requires a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Company's response:

Mr. Sean Murphy has been instrumental in the history of the Group, and is knowledgeable in its business, operations as well as reputable in the industry that the Group is in. As such, Mr. Sean Murphy's appointment as both Chairman and CEO provides strong and consistent leadership for the Group. Furthermore, while Mr. Sean Murphy is responsible for the day-to-day running of the Group and exercising of control over the quality, quantity and timeliness of information flow between the Board, the Management and the shareholders of the Company, the business development, investments, strategic direction and planning of the Group, as well as all major decisions made by Mr. Sean Murphy in his capacity as the CEO, are reviewed by the Board regularly. The Board, together as a whole, has regular meetings, as well as ad hoc meetings or calls when appropriate. Mr. Sean Murphy is cognisant that the Board functions as a collective body (subject to the delegation of relevant matters to the appropriate board committees or individuals) and has performed his duties as the Chairman bearing this mind. All important and major decisions relating to the operations and management of the Group are made jointly and collectively by the Board. The Board is of the view that the current board matters have thus far been conducted on a collective and transparent basis, including relevant members of the Board adding to board or board committee agenda items, as well as requesting or convening meetings or calls as appropriate, and is also of the view that nothing has come to its attention that would cause it to believe that this would no longer be the case in the future. Furthermore, there is a balance of power and authority within the Board as all the Board Committees are chaired by independent directors.

In addition to the above, as provided in the response to Query 1, the Board is of the opinion that the Board displays an appropriate level of independence for the reasons mentioned in the same response, in particular that the Board has a majority of non-executive directors (four (4) members), of whom three (3) are independent, and all of whom are independent of Mr. Sean Murphy.

In addition, Mr Peter Ng, who is an independent director and also the Audit Committee ("AC") Chairman, was appointed as the lead independent director of the Company to address the concerns, if any, of the Company's shareholders on issues that may not be appropriately dealt with by the Chairman and CEO. As highlighted in the response to Query 1, the independent directors would meet amongst themselves without the presence of the Management (including the executive directors) to discuss and evaluate, among others, the performance of the Management. Where applicable, the feedback and views expressed by the independent non-executive directors is communicated by the lead independent director to the Chairman and CEO and/or other members of the Management after such meetings.

Conclusion:

Taking into account the foregoing, the Board is of the view that the Company's practices in this regard are consistent with the intent of Principle 3 of the Code as there is a clear division of responsibilities between the leadership of the Board and Management and no one individual of the Board has unfettered powers of decision-making.

In addition, the NC would, from time to time, review whether it would be in the best interest of the Company to separate the roles of Chairman and CEO and will make its recommendation to the Board, as appropriate.

Query 3:

- (c) Provision 8.1 of the Code states that:

"The company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of:

(a) each individual director and the CEO; and

(b) at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel."

We note the Company's disclosure on remuneration at pages 55 and 56 of the annual report

for FY2019. Where the Company's practices deviate from the provisions of the Code, please explicitly state the provision from which it has deviated from and explain how the practices it had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company's response:

The Company has disclosed the reasons for deviating from Provision 8.1 of the Code on page 56 of AR2019, being the commercially sensitive and confidential nature of such information and disadvantages that this might bring, including the risk of employee poaching which may potentially result in the Group being exposed to unnecessary commercial and operational risks. Further, given the competitive nature of the industry in which the Company operates, the names and the breakdown of remuneration of the top five key management personnel ("**KMP**"), as well as the precise remuneration of the executive directors and non-executive directors have not been disclosed.

Principle 8 of the Code requires the Company to be transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation. Notwithstanding the abovementioned reasons for deviations, the Company is of the view that the level of information that had been disclosed is consistent with the intent of Principle 8 of the Code, for the following reasons:

- (1) **Transparency on remuneration policies** – the remuneration policies of the Company have been disclosed on pages 54 and 55 of AR2019, not only as part of its compliance with Principle 8 but also in respect of Principle 7. In particular, the Company has elaborated on the compensation philosophy governing the remuneration of executive directors and KMP and the factors taken into account for the remuneration of the non-executive directors. The Company has also disclosed the remuneration paid to each director, the Chairman and the KMP using bands of S\$250,000 for transparency.
- (2) **Level and mix of remuneration** – the level and mix of remuneration has also been disclosed on pages 54 and 55 of AR2019, where:
 - (aa) notwithstanding that the actual remuneration of the executive directors and non-executive director were not disclosed, these have been disclosed in bands of no wider than S\$250,000 and the breakdown of the components of their remuneration – Fixed (Salary) and Variable (director's fees and fair value of share awards vested pursuant to the Company's Performance Share Plan for FY2017 and FY2019) – were disclosed on page 56 of AR2019; and
 - (bb) the KMP's remuneration have been disclosed in bands of S\$250,000 and the aggregate remuneration of the KMP have been disclosed on page 56 of AR2019.
- (3) **Procedure for setting remuneration** – the procedure for setting remuneration has been disclosed on pages 53 and 54 of AR2019.
- (4) **Relationships between remuneration, performance and value creation** – the relationships between remuneration, performance and value creation are disclosed through the Company's disclosure on its compensation philosophy, as well as the disclosed remuneration. Please refer to the Company's response on transparency on remuneration policies in this regard.

Conclusion:

The Board is of the view that, in light of the above, the Company's disclosures are aligned and consistent with the intent of Principle 8, and the deviations arise because the Company seeks to balance such intent with legitimate commercial concerns, such as information being exploited by competitors and maintaining confidentiality on remuneration matters.

Query 4:

- (ii) Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please also provide information on whether the head of the internal audit function team has the relevant experience and qualifications in your disclosure.

Company's response:

In addition to the AC's opinion disclosed on pages 59 and 60 of AR2019, the AC further confirms that the internal audit function is independent, effective and adequately resourced, taking into account, among others, the following:

- (1) As mentioned in page 57 of AR2019, the internal audit function of the Company is carried out in-house by the Group Internal Auditor (the "**GIA**"). The GIA reports directly to the AC Chairman and is independent of the Management in terms of its reporting structure. The GIA operates under a charter from the AC that gives it unrestricted access to review documents, records, properties and personnel of the Group.
- (2) The GIA comprises an individual, Mr. Nicholas Chan Kin Yaw ("**Mr. Chan**"), who has been with the Company since 22 May 2017. Mr. Chan has over 10 years of internal audit and risk management experience – he has provided internal audit services and conducted internal control reviews of companies for the purposes of listing on the SGX-ST during his time with Deloitte (Singapore and Malaysia offices). He was also the Assistant Manager for the audit and compliance department in MOH Holdings Pte. Ltd (part of the Ministry of Health of Singapore). Mr. Chan holds a Bachelor of Accounting Degree from the National University of Malaysia (UKM) and is a Fellow Member of the Association of Chartered Certified Accountants and a Chartered Accountant of the Malaysian Institute of Accountants.
- (3) The GIA reviews the adequacy and effectiveness of the Group's internal controls, including financial operational, compliance and information technology controls and risk management systems through discussions with the Management and the Group's external auditors, and reports to the AC on a quarterly basis regarding the progress and major findings of the internal audit function, and to the Board annually in accordance with Rule 1207(10C) of the Listing Manual.
- (4) In any event, if there is any situation that require more resources to be deployed for internal audit matters, the Company may look to engage an external service provider to assist the GIA with the Company's internal audit functions.
- (5) The internal audit function is carried out in accordance with the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

Conclusion:

Accordingly, the AC (which reviews the adequacy and effectiveness of the internal audit function annually) and the Board are satisfied that the internal audit function is independent, effective and adequately resourced and that the head of the internal audit function team has the relevant experience and qualifications.

Query 5:

- (iii) We refer to page 65 of the annual report for FY2019. Where IPO proceeds are used for general working capital purposes, please provide a breakdown with specific details on the use of proceeds for working capital in accordance with Listing Rule 1207(20).

Company's response:

The Company had fully utilised the IPO proceeds allocated for general working capital purposes in previous years. Accordingly, the Company's breakdown for IPO proceeds used for general working capital purposes has not changed and is restated as follows:

Use of proceeds for general working capital purpose	Amount (S\$ '000)
Funding of capital injection into Procurri (Beijing) Co., Ltd	700
Meeting trade expenses	500
Meeting operating and other expenses	1,544
Procuring maintenance parts for the life cycle services business of the Group	4,000
Total	6,744

BY ORDER OF THE BOARD
PROCURRI CORPORATION LIMITED

Thomas Sean Murphy
Chairman and Global Chief Executive Officer
13 May 2020